

## Message Text

UNCLASSIFIED

PAGE 01 BONN 13047 01 OF 02 171659Z  
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-09  
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 LAB-04 SIL-01  
/157 W

-----059502 171734Z /44

R 171644Z JUL 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 0339  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT  
AMCONSUL MUNICH

UNCLAS SECTION 01 OF 02 BONN 13047

E.O. 11652: N/A  
TAGS: EIND, EMIN, GW  
SUBJECT: FRG PROPOSED ASSISTANCE TO THE SAAR AND  
RHEINLAND-PFALZ STEEL INDUSTRY

REF: FRANKFURT A-26

1. SUMMARY: THE GERMAN GOVERNMENT, IN COOPERATION WITH  
THE SAAR AND RHEINLAND-PFALZ STATE GOVERNMENTS, HAS  
COMMITTED ITSELF TO PROVIDE FINANCIAL ASSISTANCE AND  
LOAN GUARANTEES FOR THE RATIONALIZATION OF THE DEPRESSED  
SAAR STEEL INDUSTRY (REF. AIR A-26). THE ASSISTANCE  
WILL SUPPORT THE PURCHASE AND RESTRUCTURING OF THE SAAR  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 13047 01 OF 02 171659Z

STEEL INDUSTRY BY THE LARGE LUXEMBOURG STEEL FIRM,  
ARBED. THE FRG PROGRAM IS PART OF THE LONG-TERM GOVERN-  
MENT GOAL OF MODERNIZING AND DIVERSIFYING THE SAAR  
ECONOMY. END SUMMARY.

2. THE MAIN ELEMENTS OF THE GOVERNMENT'S PROGRAM ARE  
AS FOLLOWS:

(A) ARBED AGREES TO PURCHASE TWO OF THE MAJOR SAARLAND STEEL COMPANIES: STAHLWERKE ROECHLING-BURBACH AND NEUNKIRCHER EISENWERK. THE PROGRAM CALLS FOR RATIONALIZATION AND MODERNIZATION OF THESE TWO COMPANIES, IN THE COURSE OF WHICH CRUDE STEEL-MAKING CAPACITY WILL BE REDUCED BY AN ESTIMATED 14 PERCENT, AND ROLLING CAPACITY BY 20 PERCENT AND THE LABOR FORCE BY MORE THAN 50 PERCENT BY THE EARLY 1980'S.

(B) IN ORDER TO ASSIST IN THE EARLY RETIREMENT (AGE 55) OF LARGE PORTIONS OF THE WORK FORCE, THE FRG TOGETHER WITH THE SAAR AND RHEINLAND-PFALZ STATE GOVERNMENTS WILL ADVANCE IN ROUGHLY EQUAL YEARLY TRANCHES SOME DM 250 MILLION WHICH WILL BE USED FOR SEPARATION BENEFITS, ETC. THE ASSISTANCE IS GIVEN IN THE FORM OF A CONDITIONAL LOAN REPAYABLE FROM LATER PROFITS. (COMMENT - FOR ALL PRACTICAL PURPOSES THESE CONDITIONAL LOANS ARE GOVERNMENT GRANTS, SINCE INDICATIONS ARE THAT THE GOVERNMENT DOES NOT EXPECT REPAYMENT TO BEGIN MUCH BEFORE THE MID-1980'S, IF AT ALL).

(C) AN ADDITIONAL ELEMENT OF THE PLAN IS FOR THE FRG TO PROVIDE A GUARANTEE TO BANKS WHICH ADVANCE LOANS TO ARBED FOR THE PURPOSE OF FINANCING THE ACQUISITION OF THE TWO GERMAN STEEL COMPANIES. LOAN GUARANTEES UP TO UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BONN 13047 01 OF 02 171659Z

A TOTAL OF DM 900 MILLION WILL BE PROVIDED BY THE THREE GOVERNMENT ENTITIES.

(D) ANOTHER ELEMENT OF THE PROGRAM, WHICH IS NOT CLEARLY SPELLED OUT AT THIS TIME, IS A PLAN TO CREATE SOMETHING MORE THAN 17,000 NEW JOBS IN THE SAAR AND RHEINLAND-PFALZ AREAS TO HELP FURTHER IN SOFTENING THE DRASTIC JOB CUTS PROJECTED FOR THE STEEL INDUSTRY. (COMMENT: OFFICIAL SOURCES ARE NOT CONFIDENT THAT THERE WILL BE ANYTHING LIKE THIS NUMBER OF NEW JOBS CREATED. THESE ARE "OLD INDUSTRIALIZED" AREAS AND HAVE NOT BEEN PARTICULARLY ATTRACTIVE TO NEW INDUSTRY FOR SOME TIME).

3. IN A STATEMENT TO THE BUNDESTAG, THE PARLIAMENTARY STATE SECRETARY FOR THE ECONOMICS MINISTRY ELABORATED THE GOALS AND CONDITIONS IN ENACTING THE ASSISTANCE PROGRAM AS FOLLOWS:

(A) THE INDUSTRY SHOULD REGAIN ITS COMPETITIVENESS TO ASSURE THE RETENTION OF REMAINING JOBS; IT MUST ADJUST TO WORLD MARKET CONDITIONS BY ELIMINATION OF UNCOMPETITIVE OPERATIONS.

(B) RATIONALIZATION SHOULD BE PUT INTO PLACE GRADUALLY  
IN ORDER TO AVOID ABRUPT CHANGE.

(C) NECESSARY COSTS OF ARBED'S CORPORATE RATIONALIZA-  
TION PROGRAM SHOULD BE SUFFICIENTLY SPREAD OVER THE  
WHOLE OF THE ARBED ORGANIZATION (FRG, BELGIUM, NETHER-

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 13047 02 OF 02 171657Z  
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-09  
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 LAB-04 SIL-01  
/157 W

-----059483 171733Z /44

R 171644Z JUL 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 0340  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT  
AMCONSUL MUNICH

UNCLAS SECTION 02 OF 02 BONN 13047

LANDS ETC) SO THAT AN INORDINATE SHARE OF THE COSTS  
DOES NOT FALL ON THE SAAR ALONE.

(D) ANY SOLUTION INVOLVING THE SAAR LOCATIONS IS TO BE  
A BALANCED ONE, WHICH TAKES INDIVIDUAL DIFFICULTIES  
INTO ACCOUNT.

(E) THE TRADITIONAL PURCHASE AGREEMENT FOR COAL BETWEEN  
THE SAAR STEEL INDUSTRY AND THE FRG OWNED SAARBERG COAL  
MINES WILL BE EXTENDED THROUGH 1983.

4. FINAL IMPLEMENTATION OF THE GOVERNMENT'S PLANS FOR  
THE SAAR STEEL INDUSTRY AWAIT FINAL AGREEMENT ON TERMS  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 13047 02 OF 02 171657Z

OF THE TAKEOVER BY ARBED AND OF THE SAAR FIRMS PLUS  
APPROVAL OF THE PLAN BY THE FRG. FINAL AGREEMENT IS  
NOT LIKELY TO BE ARRIVED AT UNTIL LATE AUGUST. AT  
THIS POINT, MINISTRY OF ECONOMIC SOURCES TOLD US FULL  
AGREEMENT IS 95 PERCENT CERTAIN. SOME DIFFICULTIES  
STILL REMAIN, HOWEVER, INCLUDING THE PRESSURES ON ARBED  
FROM THE GOVERNMENTS OF LUXEMBOURG AND BELGIUM, WHERE  
ARBED HAS MAJOR STEEL OPERATIONS. PARTICULARLY IN  
BELGIUM WHERE THE STEEL SITUATION IS EXTREMELY DIFFI-  
CULT, SOME OBSERVERS FEEL CHANGES IN THE COMPETITIVE  
SITUATION THERE COULD JEOPARDIZE ARBED'S PLANS FOR THE  
SAAR.

5. FOR THE GERMAN GOVERNMENT, THE ECONOMIC DIFFICULTIES  
OF THE SAAR ARE OF LONG STANDING. AS A MAJOR EMPLOYER  
IN THE AREA, THE STEEL INDUSTRY HAS BEEN ESPECIALLY  
HARD HIT AS A RESULT OF WORLDWIDE DEPRESSION IN STEEL  
MAKING AS WELL AS THE USUAL STRUCTURAL PROBLEMS OF  
THAT INDUSTRY. THE ATTRACTION OF A MAJOR, VIABLE  
EUROPEAN COMPANY REORGANIZING AN OUT-OF-DATE, MONEY  
LOSING STEEL OPERATION IN THE SAAR IS AN ATTRACTIVE  
ONE TO THE GERMAN GOVERNMENT, DESPITE THE PAINFUL RE-  
STRUCTURING WHICH MUST INEVITABLY FOLLOW, IF  
THE INDUSTRY IS TO SURVIVE AT ALL IN THE SAAR AND  
DESPITE THE RATHER SUBSTANTIAL COSTS THAT IT MEANS TO  
THE GERMAN GOVERNMENT TO SEE THAT THE DEAL COMES OFF  
AT ALL.  
STOESSEL

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** STEEL, INDUSTRY, STEELS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 17 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978BONN13047  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780293-0007  
**Format:** TEL  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780754/aaaabtjd.tel  
**Line Count:** 206  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 00fc7f72-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 FRANKFURT A-26  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1991464  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FRG PROPOSED ASSISTANCE TO THE SAAR AND RHEINLAND-PFALZ STEEL INDUSTRY  
**TAGS:** EIND, EMIN, GE  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/00fc7f72-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014